

# FDIC State Profile

Fall 2005

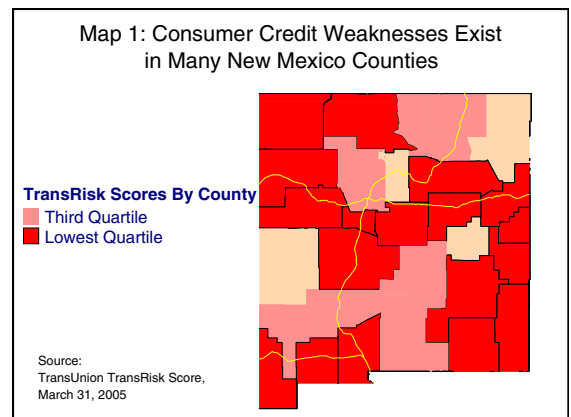
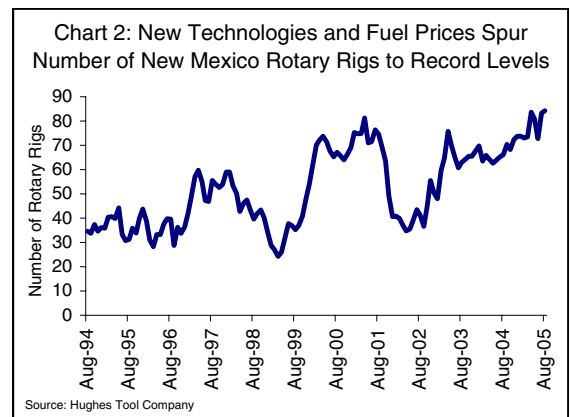
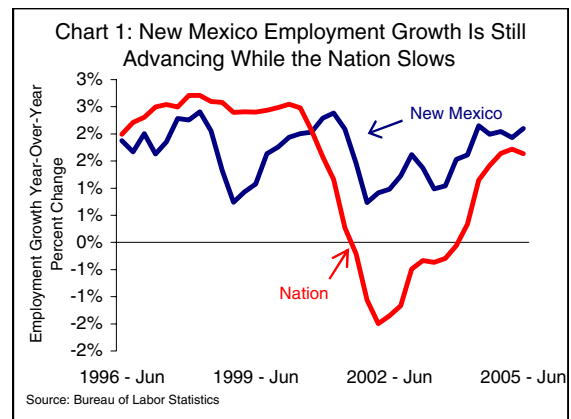
## New Mexico

New Mexico employment growth is advancing, while the nation slows.

- New Mexico's employment growth has held steady at between 1 and 2 percent year-over-year. The state reported second quarter job growth from the previous year of 2.1 percent compared with 1.6 percent for the nation (see Chart 1).
- New Mexico is the only state that has experienced positive job growth for every quarter since second quarter 1987. New Mexico added 16,600 jobs to the economy between second quarter 2004 and second quarter 2005.

The major employment sectors indicate several bright spots in the New Mexico economy.

- The two employment sectors that reported the most growth from the previous year are natural resources/mining (9.2 percent) and construction (7.5 percent). Growth in these sectors was mainly attributable to increased oil and gas prices that induced more drilling activity and robust immigration that increased the need for housing and businesses to serve the growing New Mexico population.
- Largely because of the growing New Mexico population, year-over-year employment growth in the service providing sectors of education/health services (3.1 percent), finance/insurance/real estate (3.0 percent), and professional/business services (2.4 percent) remained above the state's level of job growth.
- The information sector has been losing jobs since first quarter 2002, and reported a decline of 3.8 percent in the year-ending second quarter 2005. The telecommunications sector continues to struggle with overcapacity and lack of pricing power and has yet to take part in the post recession recovery.
- Additionally, the manufacturing sector has been unable to post positive job growth since second quarter 2001. For second quarter 2005, this sector reported job losses of 0.6 percent from a year ago.



### Energy remains a concern for consumers and businesses but is benefiting producers.

- The recent hurricanes' effects on the New Mexico economy appear to be modest and are centered on increases in energy prices. However, high energy prices are a major concern among business leaders.<sup>1</sup>
- Since falling below \$50 a barrel in May, oil prices have climbed steadily upward and set new highs. Concerns surrounding adequate refined petroleum products, strong demand and uncertainties over geopolitical events, and supply disruptions from recent hurricanes should keep energy prices elevated throughout 2005.
- Natural gas production accounts for 81 percent of New Mexico's oil and gas industry. New technologies are expanding the economic viability of tapping reserves, which are spread over vast areas of coal, shale, or impermeable limestone or sandstone.<sup>2</sup>
- Increasing fuel prices and new technologies have caused drilling activity in New Mexico to increase by 28 percent from the previous year (see Chart 2). Currently, New Mexico is the fifth largest producer of domestic oil and the fourth largest producer of domestic natural gas.

### New Mexico insured institution financial performance is strong...

- The median return on assets ratio reported by institutions headquartered in New Mexico for the six months ending June 30, 2005, was 1.22 percent, more than 10 basis points higher than the same period in 2004 and above the national median.
- Almost 75 percent of insured institutions in New Mexico hold less than \$250 million in assets; consequently, the net interest margin is a major component of earnings at these institutions. Many of the community financial institutions that remain asset sensitive have benefited from the recent increase in short-term interest rates. As a result, the yield on earning assets outpaced the cost of funding in the first six months of 2005 when compared to the same period in 2004.

### ...however, area institutions continue to face risk management challenges.

- Although insured institutions continue to perform well, several credit quality indicators point to troubling trends. TransRisk credit scores suggest that most of the southern states, including New Mexico, face significant challenges

(see Map 1).<sup>3</sup> The median TrenData score for New Mexico ranks tenth worst among states in terms of low credit scores, suggesting New Mexico consumers and their lenders face continued challenges.

- New Mexico per capita bankruptcy rates remain at historically high levels. Albeit below the national average, the four-quarter moving total remains higher than even the troublesome 1980s that were marked by two recessions and volatile energy prices.
- In summary, while banks and thrifts have weathered the recent economic slowdown, there are warning signs that suggest bankers must remain ever diligent and prudent in underwriting decisions.

### An expanding New Mexico real estate market is prompting strong demand for construction lending.

- Driven by solid employment gains and favorable financing rates, New Mexico commercial and residential building permits remain exceptionally vibrant, contributing to rapid growth in construction lending concentrations. As of second quarter 2005, construction and development loans at the state's insured institutions represented 15 percent of total loans, more than twice the national rate.
- Rapid growth led New Mexico insured institutions to a record level for commercial real estate (CRE) lending equal to 29 percent of total loans, or twice the national rate in the second quarter. Performance of CRE loans remains very good with reported past-due and charge-off rates among the lowest in a decade and below the national averages.

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<sup>1</sup>National Federation of Independent Businesses, "Effect of Increasing Energy Prices on Small Business" July 15, 2005.

<sup>2</sup>Robert W. Gilmer, "Unconventional Gas Drives New Mexico Rig Count," *Crossroads*, (2005) Issue 1.

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<sup>3</sup>TransRisk is a proprietary anonymous, aggregated credit risk score product of Trans Union, LLC. For more information on this topic, please visit: <http://products.trendatatu.com/>.

## New Mexico at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	1.9%	2.1%	2.0%	1.2%
Manufacturing (4%)	-0.6%	0.0%	-1.0%	-1.6%	-5.0%
Other (non-manufacturing) Goods-Producing (8%)	7.9%	6.7%	5.9%	6.2%	2.6%
Private Service-Producing (62%)	1.6%	1.5%	2.1%	1.8%	1.2%
Government (25%)	2.0%	1.9%	1.7%	1.6%	2.2%
Unemployment Rate (% of labor force)	5.9	5.6	5.7	5.7	5.9

<b>Other Indicators</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	7.5%	7.7%	6.6%	6.4%	4.0%
Single-Family Home Permits	0.8%	-3.1%	20.2%	9.9%	14.1%
Multifamily Building Permits	-57.6%	-32.5%	-10.1%	-27.2%	-10.2%
Existing Home Sales	7.3%	11.9%	12.4%	16.9%	11.3%
Home Price Index	11.8%	9.7%	7.1%	7.7%	5.1%
Bankruptcy Filings per 1000 people (quarterly annualized level)	6.02	5.26	5.24	5.05	5.25

**BANKING TRENDS**

<b>General Information</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	57	58	59	58	60
Total Assets (in millions)	16,232	15,942	15,466	15,822	20,529
New Institutions (# < 3 years)	1	1	1	0	1
Subchapter S Institutions	26	26	25	24	24

<b>Asset Quality</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.26	1.30	1.32	1.23	1.58
ALLL/Total Loans (median %)	1.36	1.36	1.31	1.37	1.32
ALLL/Noncurrent Loans (median multiple)	2.73	2.25	1.78	2.03	1.64
Net Loan Losses / Total Loans (median %)	0.02	0.06	0.05	0.18	0.14

<b>Capital / Earnings</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	8.77	8.74	8.60	8.53	8.47
Return on Assets (median %)	1.27	1.14	1.30	1.09	1.14
Pretax Return on Assets (median %)	1.78	1.63	1.57	1.50	1.52
Net Interest Margin (median %)	4.76	4.60	4.57	4.65	4.50
Yield on Earning Assets (median %)	6.22	5.97	5.66	5.75	6.07
Cost of Funding Earning Assets (median %)	1.46	1.36	1.20	1.23	1.39
Provisions to Avg. Assets (median %)	0.12	0.09	0.09	0.13	0.14
Noninterest Income to Avg. Assets (median %)	0.79	0.72	0.79	0.83	0.90
Overhead to Avg. Assets (median %)	3.38	3.30	3.30	3.24	3.46

<b>Liquidity / Sensitivity</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	60.5	60.9	61.8	59.1	58.5
Noncore Funding to Assets (median %)	18.2	19.1	20.6	20.0	20.0
Long-term Assets to Assets (median %, call filers)	19.9	20.3	19.8	19.6	18.9
Brokered Deposits (number of institutions)	7	8	8	7	9
Brokered Deposits to Assets (median % for those above)	3.2	2.8	2.3	3.1	1.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	96.5	100.1	109.7	108.1	110.8
Commercial Real Estate	238.3	236.6	244.7	244.1	231.4
Construction & Development	49.3	43.6	46.1	49.5	43.2
Multifamily Residential Real Estate	7.6	8.1	5.7	6.8	4.5
Nonresidential Real Estate	137.8	150.8	162.3	156.0	160.3
Residential Real Estate	125.5	136.7	126.3	136.4	135.0
Consumer	33.5	34.4	42.3	40.1	48.2
Agriculture	17.1	16.4	16.7	15.0	18.1

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Albuquerque, NM	23	7,742	< \$250 million	41 (71.9%)
Santa Fe, NM	11	1,751	\$250 million to \$1 billion	11 (19.3%)
Las Cruces, NM	16	1,236	\$1 billion to \$10 billion	5 (8.8%)
Farmington, NM	7	888	> \$10 billion	0 (0%)